

STATE OF VERMONT
GREEN MOUNTAIN CARE BOARD

MODIFICATION OF FY2022 HOSPITAL BUDGET DECISION AND ORDER

| | | |
|--|---|---------------------|
| In re: Rutland Regional Medical Center |) | Docket No. 21-012-H |
| Fiscal Year 2022 |) | |
| | | |

INTRODUCTION

On September 1, 2021, the Green Mountain Care Board (GMCB or the Board) approved an FY22 budget for Rutland Regional Medical Center (RRMC). On October 1, 2021, GMCB issued a written budget order for RRMC's FY22 budget (Budget Order). The FY22 budget previously approved by the GMCB for RRMC, and reflected in the Budget Order, included approval of a charge increase "at not more than 3.64% over current approved levels." Budget Order, Order, ¶ B.

On February 25, 2022, RRMC submitted a request to modify its approved budget by increasing the hospital's average rate by 9%. Following a presentation by RRMC on March 17, 2022, GMCB staff presentations GMCB deliberations on March 17, 23, and 30, 2022, the Board voted to deny a mid-year adjustment to RRMC's Budget Order.

LEGAL FRAMEWORK

One of the Board's core regulatory responsibilities is to review, approve, and monitor the budgets of Vermont's 14 community hospitals. 18 V.S.A §§ 9374(b)(7), 9456. The Board's oversight of hospital budgets is guided by its statutory charge "to promote the general good of the state by: (1) improving the health of the population; (2) reducing the per capita rate of growth in expenditures for health services in Vermont across all payers while ensuring that access to care and quality of care are not compromised; (3) enhancing the patient and health care professional experience of care; (4) recruiting and retaining high quality health care professionals; and (5) achieving administrative simplification in health care financing and delivery." 18 V.S.A. § 9372.

In response to a request from a hospital, the Board may adjust a previously established budget "upon a showing of need based upon exceptional or unforeseen circumstances." 18 V.S.A. § 9456(f); GMCB R. 3.000, § 3.401. When considering a possible adjustment, the Board considers the following factors:

- (1) The variability of a hospital's actual revenues, taking into account the resources of payers and the methods of payment used by the payers;
- (2) The hospital's ability to limit services to meet its budget, consistent with its obligations to provide appropriate care for all patients;
- (3) The financial position of the hospital in relation to other hospitals and to the health care system as a whole, using the statistics developed from information submitted in compliance with the uniform reporting manual;

- (4) The hospital's performance under budgets identified or established under subchapter 7 of Chapter 221 of Title 18 of Vermont Statutes Annotated for the previous three years and its budget projections for the next three years; and
- (5) Any other considerations deemed appropriate by the Board, including but not limited to other instances in which a hospital has less than full control over the expenditures limited by the budget.

GMCB R. 3.000, § 3.401(a)(1)-(5).

If the Board concludes a "hospital's performance has differed substantially from its budget," the Board may make appropriate adjustments to the hospital's current and future budgets. See id. § 3.401(c); see also 18 V.S.A. § 9456 (h)(2)(B)(i)(II) ("The Board may order a hospital to take such corrective measures as are necessary to remediate . . . the deviation . . ."). Appropriate adjustments may include "allowing hospital rates [charges] to be increased for a hospital with a deficit caused by revenues that were less than projected, but whose actual expenditures were within budget limits." GMCB R. 3.000, § 3.401(c)(3).

A hospital bears the burden to justify its budget or any budget amendment it may request. See id. § 3.306(a).

Based on the above, the Board issues the following Findings, Conclusions, and Modification to the Budget Order:

FINDINGS

1. On October 1, 2021, the Board issued its Budget Order for RRMC, approving a FY22 NPR/FPP budget at a growth rate of 9.2% over its FY21 budget, with a total NPR/FPP of \$270,361,370 for FY22, and a charge increase at not more than 3.64% over then-current approved levels. See Budget Order, ¶¶ A, B. RRMC's FY22 budget was approved as submitted to the Board, without modification. See Budget Order, Conclusions.
2. On February 25, 2022, RRMC submitted a request to modify its approved budget by increasing the hospital's charges by 9% (Budget Adjustment Request). RRMC's Board of Directors approved its budget adjustment request on March 2, 2022. See Letter from Claudio Fort and Judi Fox, 1 (March 3, 2022). RRMC leadership presented to the Board on March 17, 2022, in support of the requested mid-year budget adjustment. See RRMC Budget Adjustment Hearing Presentation (RRMC Presentation), 1.
3. On March 17, 23, and 30, 2022, GMCB staff presented analysis of RRMC's mid-year adjustment request, along with an analysis of the hospital's year-to-date performance and projections. See GMCB PowerPoint, RRMC Budget Modification Request, 1 (March 30, 2022) (Deliberations III). The Board reviewed and deliberated on the request on March 17, 23, and 30, 2022. Following deliberations on March 30, 2022, the Board voted to deny RRMC's request to modify its FY22 Budget Order for a mid-year change in charge.

4. RPMC requested an increase to its charges of 9% from its approved FY22 budget. *See* Budget Adjustment Request, 1. The hospital projected that, even with a 9% rate increase, its operating margin for FY22 would be negative. *See id*; *see also* RPMC Presentation, 2.
5. RPMC cites changes in both its revenue expectations and expense commitments as the basis for the requested rate increase. *See* Budget Adjustment Request, 1. In particular, RPMC cites staffing costs of approximately 27% greater than budgeted for FY22. *See* RPMC Presentation, 3. RPMC projects an additional \$35 million in staffing related costs above its FY22 budget, which includes an additional \$11.6 million of inflation costs for temporary staffing and an additional \$16.3 million for recruitment and retention incentive plans. *Id.* RPMC reports an increase in both the cost and utilization of traveling staff in FY22. *See* RPMC Budget Presentation, 4.
6. During the FY22 budget review and approval process, RPMC informed the Board that RPMC's proposed FY22 budget included a change in charge that did not cover the anticipated impact of inflation. *See* Budget Order, Findings, ¶ 8. As we noted in the Budget Order:

8. RPMC submitted its FY22 budget with a requested average overall charge increase of 3.64%. *See* RPMC Submission, Narrative, 4; Deliberation I, 43. RPMC's requested rate increase does not cover the impact of inflation on its budget; instead, RPMC's budget relies on increased volume to subsidize some of the inflationary cost. *See* Testimony of Judi Fox, Hearing Transcript, 110:5-110:14. RPMC estimates that a rate increase to cover inflation would have been 7.4%. *See id.*

Id.

7. RPMC had strong volumes in the first quarter of FY22, but reported that its volume had softened after the first quarter. *See* Testimony of Judi Fox, Hearing Transcript, 17:15-18:4 (March 17, 2022) (Hearing Transcript I).
8. RPMC notes that it is "increasingly more difficult to try to balance a budget on rate increases" because of competing factors, including its changing payer mix and ACO participation. *See* Testimony of Judi Fox, Hearing Transcript I, 22:10-22:24.
9. GMCB staff, working with RPMC, compared RPMC's budgeted cost inflation increases, which were the assumptions used by the hospital in preparing its FY22 budget, and RPMC's projected cost inflation increases at the time it submitted its request for a budget adjustment. *See* Deliberations III, 17-19. The following table shows a comparison between the hospital's budgeted and projected cost inflation, and also notes increased costs that could be considered one-time charges.

| | Inflation % | | | Inflation \$ | | | | | |
|--|------------------|-----------------|--------|--------------------|------------------|---------------|-------------------------|---------------------------------|----------------------|
| Inflation Category | Variance to | | | Variance to | | | Adjustment for One-time | Projected Increase w/o One-time | Adjusted Variance to |
| | Budget Increase% | Proj Increase % | Budget | Budget Increase \$ | Proj Increase \$ | Budget | Incentives | Adjustments | Budget |
| Wages/Compensation - Medical Staff | 2% | 4.8% | 2.9% | \$ 666,660 | 1,826,343 | \$ 1,159,683 | \$ 1,515,435 | \$ 310,908 | \$ (355,752) |
| Wages/Compensation - Non-Medical Staff | 6% | 9.6% | 3.6% | \$ 3,827,055 | 10,930,563 | \$ 7,103,508 | \$ 6,309,182 | \$ 4,621,381 | \$ 794,326 |
| Drugs | 6% | 6.8% | 0.8% | \$ 1,125,599 | 958,098 | \$ (167,501) | | \$ 958,098 | \$ (167,501) |
| Medical Supplies | 8% | 13.2% | 5.2% | \$ 657,063 | 1,360,836 | \$ 703,773 | | \$ 1,360,836 | \$ 703,773 |
| Contract Staffing | 100% | 124.5% | 24.5% | \$ 1,042,800 | 8,109,729 | \$ 7,066,929 | | \$ 8,109,729 | \$ 7,066,929 |
| Totals: | | | | \$ 7,319,177 | 23,185,568 | \$ 15,866,391 | \$ 7,824,617 | \$ 15,360,951 | \$ 8,041,774 |

Deliberations III, 19.

10. In its approved FY22 budget, RPMC budgeted NPR/FPP of \$270,361,370 total operating revenue of \$291,107,105, total operating expenses of \$290,985,741, and a net operating margin of \$121,364. *See* RPMC Presentation, 2. RPMC's projections for FY22, without any modification of its charges, are for an NPR/FPP of \$299,600,937, total operating revenue of \$328,070,984, total operating expenses of \$335,625,075, and a net operating loss of \$7,554,091. *See id.* If RPMC were to receive a 9% rate increase, the hospital's projected NPR/FPP would increase to \$306,967,713, and the hospital's projected net operating loss would be \$187,315 for FY22. The total gross revenue impact from a 9% rate increase is an expected increased \$31.8 million. *See* Deliberations III, 6.
11. For FY17 through FY19, RPMC's actual NPR/FPP were in line with its budgeted NPR/FPP. *See* Deliberations III, 9. For FY20, RPMC's actual NPR/FPP was approximately \$28.5 million below its budgeted NPR/FPP. *See id.* For FY21, RPMC's actual NPR/FPP was approximately \$28.5 million above its budgeted NPR/FPP. RPMC has had operating margins of 1.6%, 0.5%, 0.4%, 0.2%, and 2.2% for FY17 through FY21. *See* Deliberations III, 11. For FY20 and FY21, RPMC's approved changes in charge were 2.7% and 6.0%, respectively. *See* Deliberations III, 13. RPMC's five-year average change in charge, without a mid-year adjustment, is 3.97%. *See id.*
12. RPMC is subject to financial covenants with its debt holders, including an annual debt service coverage ratio covenant. *See* RPMC Presentation, 12. With a projected FY22 operating loss of \$7.5 million, RPMC projects a debt service coverage ratio of 1.79 against a bond covenant of 1.40. *See* Deliberations III, 22. If RPMC's operating loss for FY22 reach \$9 million, RPMC projects a debt service coverage ratio of less than 1.40. *See id.*
13. RPMC's days cash on hand decreased from 274.3 for FY21 to 244.0 for the first quarter of FY22. *See* Deliberations III, 11. RPMC's projected days cash on hand for FY22, excluding Medicare advanced payment, is greater than 200 days. *See* RPMC Presentation, 11. The median days cash on hand for Vermont PPS hospitals for first quarter of FY22 was 152. *See* Deliberations III, 20. Medians for Northeast hospitals and

Northern New England hospitals gathered from Fitch Rating Solutions were 162.2 and 164.3, respectively, for 2019 (RRMC's days cash on hand for FY19 was 201.8). *See id.*

14. RRMC's FY22 operating margin, as of the first quarter of FY22, was -1.23%, compared to a median of 0.37% for all Vermont PPS hospitals and 2019 medians of 1.20% and 0.80% for Northeast hospitals and Northern New England hospitals gathered from Fitch Rating Solutions (RRMC's operating margin for FY19 was 0.4%). *See* Deliberations III, 11, 20. RRMC's FY22 total margin, as of the first quarter of FY22, was 2.14%, compared to a median of 6.29% for all Vermont PPS hospitals and 2019 medians of 2.00% and 3.50% for Northeast hospitals and Northern New England hospitals gathered from Fitch Rating Solutions. *See id.*
15. In response to staff questions, RRMC informed the Board that if RRMC's rate increase is not approved, RRMC "may be required to make difficult decisions to limit certain clinical services." RRMC Response to GMCB Staff Questions, 1 (March 11, 2022).
16. In connection with the hospital's request for a mid-year rate increase, the Board received and considered approximately 9 public comments. *See* Deliberations III, 3. Most of the comments called on the Board to vote against any rate increase. Several comments argued against a rate increase because that rate increase shifts additional unplanned costs to self-insured businesses and households that would pay increased expenses for medical care that they had not planned for, while also facing the cost pressures from increased inflation. *See, e.g.,* Letter from Sara Teachout, BlueCross BlueShield of Vermont, 1 (March 22, 2022), and Letter from Sharron Scott, Vermont State Colleges, 1 (March 25, 2022).

CONCLUSIONS

Mid-year adjustments to approved hospital budgets must be limited to "exceptional or unforeseen circumstances" where the affected hospital can show that it needs the requested adjustment. *See* 18 V.S.A. § 9456(f). This is particularly true of mid-year commercial rate increases that, as several commentators explained, result in unanticipated increased health care costs to individuals and businesses that they would not have planned for. Findings, ¶16. After finding that a hospital meets these statutory threshold criteria, the decision to modify a hospital's budget order mid-year is within our discretion, guided by factors set out in our hospital budget review rule. *See* 18 V.S.A. § 9456(f); GMCB R. 3.000, § 3.401(a)(1)-(5). We find that RRMC has not made a showing of need in the face of unexpected circumstances that warrants a mid-year rate increase, and we deny RRMC's request for an amendment to its FY22 Budget Order.

The increased costs pressures from price inflation and increased staffing costs, including the increased use and cost of temporary labor, do not, by themselves, necessarily constitute "exceptional or unforeseen circumstances." RRMC built a budget for FY22 that included a change in charge that was not intended to cover the cost of inflation, which RRMC planned to cover through increased volume. *See* Findings, ¶ 6. RRMC did see increased volumes in the first quarter of FY22. *See* Findings, ¶ 7. RRMC also projects an NPR/FPP for FY22 that is

\$29.2 million more than its budgeted NPR/FPP for FY22. *See Findings, ¶ 10.* Historically, from FY17 through FY19, RRMC's actual NPR/FPP was close to its budgeted NPR/FPP – the last two years have been exceptions, with RRMC's actual NPR/FPP under budget in FY20 and then over budget in FY21, in each case by approximately \$28.5 million. *See Findings, ¶ 11.* RRMC's projected operating loss for FY22 results from increased expenses, primarily staffing related costs. *See Findings, ¶¶ 5, 10.* Considering price inflation specifically, RRMC's projected increase is approximately \$15.9 million more than its budgeted increase, of which approximately \$7.8 million results from incentives that could be one-time payments. *See Findings, ¶ 9.*

Hospitals, along with individuals and businesses, are being affected by the increased costs of goods and services, and the health care system overall has struggled with workforce shortages, staffing challenges, and increased cost of temporary staffing. RRMC is no exception, but it is starting FY22 from a stronger balance sheet than the median Vermont PPS hospital. *See Findings, ¶ 13.* RRMC's has a balance sheet position of 244 days cash on hand as of the first quarter of FY22, which RRMC projects to decrease to close to 200 days cash on hand for FY22. *See Findings, ¶ 13.* The median for Vermont PPS hospitals for the first quarter of FY22 was 152 days cash on hand. *See id.* RRMC also projects that it will exceed its budgeted NPR/FPP for FY22. *See Findings, ¶ 10.*

RRMC states that without a rate increase, it may be forced to limit services. *See Findings, ¶ 15.* We also recognize that RRMC's days cash on hand has declined in FY22. *See Findings, ¶ 13.*

We consider RRMC's financial position, the increased costs and price inflation that it faces, and the factors set out in GMCB Rule 3.000, § 3.401(a), and we conclude that RRMC has not made a showing of need based on exceptional and unforeseen circumstances that justifies its request for a 9% mid-year rate increase.

We do understand the challenges that RRMC, along with other hospitals, face from staffing and workforce shortages, challenges to recruit and retain permanent staff, the increased reliance on travelers at increased cost, and the other cost pressures associated with inflation. We expect to review and consider these challenges during the FY23 hospital budget process when we begin reviewing FY23 budgets in a few months.

ORDER

Based on our findings and conclusions detailed above and the authority granted by Chapter 221, Subchapter 7 of Title 18, we deny RRMC's request to amend its FY22 Budget Order.

The findings and orders contained in this decision do not constrain the Board's decisions in future hospital budget reviews, future certificate of need reviews, or any other future regulatory or policy decisions.

So ordered.

Dated: April 21, 2022
Montpelier, Vermont

| | | |
|------------------------|---|----------------|
| s/ Kevin Mullin, Chair |) | |
| |) | GREEN MOUNTAIN |
| s/ Jessica Holmes |) | CARE BOARD |
| |) | OF VERMONT |
| s/ Robin Lunge |) | |
| |) | |
| s/ Thom Walsh |) | |

Board Member Pelham, dissenting

s/ Tom Pelham)

Filed: April 21, 2022

Attest: s/ Jean Stetter
Green Mountain Care Board
Administrative Services Director

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